

# **Korean Agricultural cooperatives as a model for development of the Lane County**

**By**

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# I. Introduction

Agriculture remains an important part of the Oregon state's economy, first in terms of volume and second only to high tech in terms of export value and the state of Oregon grows diverse of production and most of the production is exported and 40% leaves the country.<sup>1</sup>

Many scholars insist that cooperatives can contribute to the community development. Newly established cooperatives make new jobs in the community and pay taxes to the rural government. They also bring about the construction of infrastructure. In addition, cooperatives play an important role in retaining the money in the community which buyers spent. Especially, agricultural

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<sup>1</sup> Can the way we eat change Metropolitan agriculture?, Martha Works and Thomas Harvey, [www.terrain.org/articles/17/works\\_harvey.htm](http://www.terrain.org/articles/17/works_harvey.htm)

cooperatives can contribute to not only the increase of farmers' income but also providing consumers with fresh and safe food which is grown, distributed, shipped and handled locally.

This paper will use Lane County as an example to illustrate role of agricultural cooperatives in rural development. Because historically Lane County's economy has been based on agriculture, Lane County can be a good example of how agricultural cooperatives can help regional development.

Most farms in Lane County are family farms, and agricultural cooperatives can be useful tools for the family farms. In addition, in there is a situation where Oregon suffers from high unemployment, agricultural cooperatives can give new jobs to Lane county.

While most US agricultural cooperatives are based on one type of agricultural produce, Korean agricultural cooperatives are based on their membership. In the situation that there is more need for processors and distributors in Lane County, Korean agricultural cooperatives can be a good model for Lane County because, by participating in the retail market, Korean agricultural cooperatives assume some roles of processors and distributors.

Considering that the Lane County grows a wide variety of agricultural produce, Korean agricultural cooperatives are good model for the Lane County because Korean agricultural cooperatives focus on their members, not on specific items like in US. Hence they try to market and sell as much of the agricultural produce or livestock their members grow as they possibly can. Hence, Korean agricultural cooperatives can contribute to establish self reliant local food systems because they collect locally produced food, process them in the same region, distribute locally and sell them in the same region in which the food grows.

Moreover, Korean agricultural cooperatives are traditional cooperatives, and Zeuli and Radel insist<sup>2</sup> that traditional cooperatives have the most broad-based support than other types of cooperatives such as New Generation Cooperatives or Patron-investment cooperatives. Hence, it is worthwhile to note Korean agricultural cooperatives as a model for the development strategy for the Lane County.

## II. Background

Nowadays, most food comes to us through a global food system. Some people support global food system because, due to significant differences in labor costs,

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<sup>2</sup> Cooperatives as a community development strategy: Linking theory and practice, the Journal of Regional Analysis & Policy(2005), Kimberley Zeuli and Jamie Radel

some agricultural produce which are grown abroad can be cheaper to Oregonians than ones grown in the Lane County even after freight costs added in.<sup>3</sup> However, global food system has many problems. Under a global food system, the meal's food traveled an estimated average of 1,546 miles compared with only 45 miles for the local meal<sup>4</sup> and "changes hands half a dozen times before it is consumed."<sup>5</sup> Under a global food system, 4 to 17 times more fuel than the local food system was burned. In addition, the release of greenhouse gases, which contributes to global warming, was 5 to 17 times greater for the global food system than the local food system.<sup>6</sup>

The distance that food travels represents the public's separation from the knowledge of how the food they consume is produced, processed, and

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<sup>3</sup> Feeding Lane County, Locally Grown: Foods & Wines of Lane County & Surrounding areas (2008), Dan Armstrong

<sup>4</sup> Willamette farm and food coalition, [www.lanefood.org](http://www.lanefood.org)

<sup>5</sup> Coming into the foodshed, Agriculture and human values 13:3 (summer): 33-42, 1996, Jack Kloppenburg, jr., John Hendeickson and G. W. Stevenson

<sup>6</sup> Willamette farm and food coalition, [www.lanefood.org](http://www.lanefood.org)



transported<sup>7</sup> and a global food system depends on consumers not knowing much about their food beyond the price disclosed by the checkout scanner.<sup>8</sup>

Corporations that are the principal beneficiaries of a global food system now dominate the productions, processing, distribution, and consumption of food.<sup>9</sup>

However, corporate food production is harmful to local rural economies, drives diversified farming operations out of business, and forces farmers into contract farming which leaves them vulnerable to layoffs. In addition, because corporate demand for product uniformity controls everything, contract farmers no longer determine the crop varieties they grow or the livestock they raise. Moreover, corporate agriculture's reliance on chemicals has proved environmentally damaging, hazardous to farm workers' health, and inhumane to animals.<sup>10</sup>

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<sup>7</sup> Coming into the foodshed, Agriculture and human values 13:3 (summer): 33-42, 1996, Jack Kloppenburg, jr., John Hendeickson and G. W. Stevenson

<sup>8</sup> The omnivore's dilemma: A natural history of four meals (2006), Michael Pollan

<sup>9</sup> Coming into the foodshed, Agriculture and human values 13:3 (summer): 33-42, 1996, Jack Kloppenburg, jr., John Hendeickson and G. W. Stevenson

<sup>10</sup> Building a common table: The role for planning in community food systems, Journal of planning education and research 2004; 23; 341, Marcia Caton Campbell

In effect, more people are becoming aware that a global food system is destructive for both natural and social communities. Not only are farmers recognizing the social and environmental advantages to sustainable agriculture, but also many consumers coming to appreciate the benefits of fresh and sustainably produced food.<sup>11</sup> Hence, protests against global industrial food system change, such as the use of genetically modified organisms (GMOs) in foods and the increasing dominance of multinational food corporations, are commonplace, while “sustainable agriculture proponents, farmers, and community food security advocates work toward more sustainable local or regional food systems.”<sup>12</sup>

“Counterposed to the global food system are self-reliant, locally or regionally based food systems comprised of diversified farms using sustainable practices to supply fresher, more nutritious food stuffs to small-scale processors and

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<sup>11</sup> Coming into the foodshed, Agriculture and human values 13:3 (summer): 33-42, 1996, Jack Kloppenburg, jr., John Hendeickson and G. W. Stevenson

<sup>12</sup> Building a common table: The role for planning in community food systems, Journal of planning education and research 2004; 23; 341, Marcia Caton Campbell

consumers to whom producers are linked by the bonds of community as well as economy.”<sup>13</sup>

In the view of Pollan, it is important that buyers know about the growers of agricultural produce and hence how the produce was raised, processed, shipped and handled.<sup>14</sup> Korean agricultural cooperatives may provide a model in such things because Korean Regional agricultural cooperatives and Livestock cooperatives are regionally bound, hence they collect, market, process and sell food which is grown in the specific regions. Moreover, by being regionally bound, in the Korean agricultural systems, producers and consumers have an easy time getting to know each other.

Recently, grain prices are soaring on the world markets. For the past three years, international grain prices went up two times higher.<sup>15</sup> In the US, a growing

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<sup>13</sup> Coming into the foodshed, Agriculture and human values 13:3 (summer): 33-42, 1996, Jack Kloppenburg, jr., John Hendeickson and G. W. Stevenson

<sup>14</sup> The omnivore's dilemma: A natural history of four meals (2006), Michael Pollan

<sup>15</sup> Prepare in advance to the international grain prices (translated by me),

numbers of consumers are clamoring for locally produced foods and a growing number of people are becoming concerned about shortage of food in the future. More people are becoming interested in food which is grown locally, processed locally and distributed locally.

According to Pollan, “a genuinely local agriculture will tend to be a more sustainable agriculture. For one thing, it is much less likely to rely on monoculture, the original in from which almost every other problem of our food system flows. A farmer dependent on a local market will, perforce, need to grow a wide variety of things rather than specialize in the one or two plants or animals that the national markets would ask.”<sup>16</sup>

In Korea, agricultural cooperatives have handled versatile plants and animals that their members produce, because they focus on their member not on one or two specific items like In US. Hence, the Korean agricultural cooperative model can contribute to sustainable agriculture in US.

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[www.ineews365.com/news/article.html?no=33158](http://www.ineews365.com/news/article.html?no=33158)

<sup>16</sup> The omnivore’s dilemma: A natural history of four meals (2006), Michael Pollan

In the Lane County, about 60 % of Willamette Valley is in grass seed production, but “it is depleting the soil and it is not serving people in the Willamette Valley in terms of long-term food needs.” According to Mellbye, an OSU field crops extension agent for Linn, Benton and Lane County, Lane County has capacity to grow more food because it has good soil, good irrigation, and farmers with the experience of growing row crops and vegetable crops.<sup>17</sup> Hence, farmers in Lane County want to change their produce from grass seed to food crops. They want to transform their farm land into a diverse, sustainable and durable agricultural region that grows food for the people who live there.<sup>18</sup>

However, there are not many processors and distributors (or processing and storage facilities) of agricultural produce which are harvested in Lane County.<sup>19</sup>

In Korea, agricultural cooperatives assume some roles of processors and

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<sup>17</sup> A growing advantage, The Register Guard (Jan 19, 2008)

<sup>18</sup> *ibid*

<sup>19</sup> *ibid*

distributors by having processing and storage facilities or by participating retail market through Hanaro mart and Hanaro club.

### **III. The Korean agricultural cooperatives model in Lane County**

#### **Cooperatives for the community development**

Many scholars assert that the cooperative form of business has greatly contributed to the development of rural communities. Zeuli and Radel<sup>20</sup> look at cooperatives as “important vehicles for community development because they mobilize local resources into a critical mass and their structure allows them to be more community oriented.” According to Zeuli, cooperatives should be considered an ideal mechanism for rural community development.<sup>21</sup> Thomas

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<sup>20</sup> Cooperatives as a community development strategy: Linking theory and practice, the Journal of Regional Analysis & Policy(2005), Kimberley Zeuli and Jamie Radel

<sup>21</sup> Cooperatives and communities: findings, previous research, issues for further study, Kimberly A. Zeuli, (in) The impact of new generation cooperatives on their communities(2001), Randall E. Togerson ed

views the cooperative model as an ideal mechanism for dealing with the principal competitive disadvantages of rural communities: low population densities, smaller markets, and higher service costs.<sup>22</sup> King also thought of the cooperative as an important tool for community economic development because cooperatives are established to benefit members in a geographically bounded community.<sup>23</sup>

Many cooperatives have contributed to economic development by serving as a vehicle to add value to locally available resources. According to Thomas, “cooperatives have many built-in features beyond their defining characteristics that could be highly useful in development efforts.”<sup>24</sup>

Because cooperatives belong to the people who use them, they are firmly grounded in the region they serve. Cooperatives are locally developed, locally owned and locally controlled, hence, “cooperatives clearly contribute to

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<sup>22</sup> Agricultural cooperatives and rural development, American cooperation (1990): 81-88, Stafford Thomas H.

<sup>23</sup> Lessons and challenges, Robert P. King, (in) The impact of new generation cooperatives on their communities(2001), Randall E. Togerson ed

<sup>24</sup> Agricultural cooperatives and rural development, American cooperation (1990): 81-88, Stafford Thomas H.

community's human capital development (e.g, member education, leadership training and so on), social capital development (e.g, increased interaction among members and so on), and financial capital development (e.g, generating financial returns on local community).<sup>25</sup> Also, cooperatives pay taxes and their net gains are returned to members, who usually live in the local community. Establishing new cooperatives can create new jobs and strengthen local demands for retail sales and services. Also, establishing new cooperatives create a need for new infrastructure such as new roads, sewer, water, and utilities. In addition, it can induce to establishment of new schools and health care services. Moreover, it may lead to the development of other business in the community.

Agricultural cooperatives can be an excellent tool not only for rural community development but also to help extend the cooperative model to other rural enterprises. They also represent resources needed for successful rural

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<sup>25</sup> Cooperatives as a community development strategy: Linking theory and practice, the Journal of Regional Analysis & Policy(2005), Kimberley Zeuli and Jamie Radel



development. Thomas insists that “agricultural cooperatives are usually a major employer in the local economy and a business that has many of the same needs as other local businesses.”<sup>26</sup> Because farmers own agricultural cooperatives, agricultural cooperatives can contribute to an environmentally sustainable agriculture than other agribusinesses. According to Zeuli<sup>27</sup>, “many cooperatives have instituted state-of-the-art environmental stewardship programs.” In particular, because their future is tied to that of their rural communities, agricultural cooperatives have been used as a tool for economic development.<sup>28</sup>

## Introduction of Korean agricultural cooperatives

### 1. Overview

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<sup>26</sup> Agricultural cooperatives and rural development, American cooperation (1990): 81-88, Stafford Thomas H.

<sup>27</sup> Cooperatives and communities: findings, previous research, issues for further study, Kimberly A. Zeuli, (in) The impact of new generation cooperatives on their communities.(2001), Randall E. Togerson ed

<sup>28</sup> Cooperatives Ideal vehicle to promote development in rural revitalization, Farmers Cooperatives 56 (March 1990):14-18, Duffey, Patrick.

The Korean agricultural cooperatives, known as “NH, Nonghyup” in Korean, consist of 2.4 million member farmers and about 1220 member cooperatives and one apex federation, the NACF.

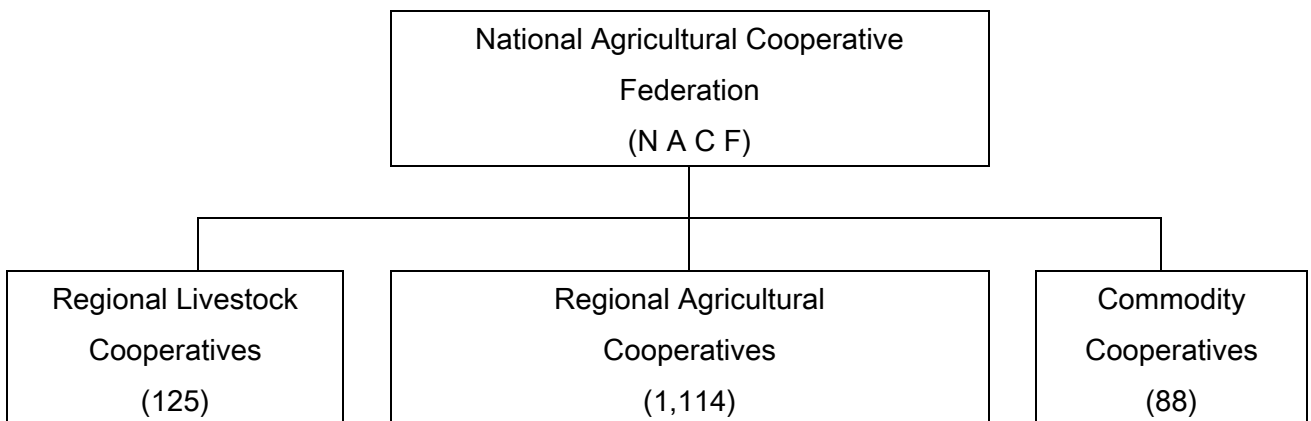
Relative to US agricultural cooperatives, one characteristic of Korean agricultural cooperatives is that they are multi-purpose organizations, which conduct a marketing business, a banking business and extension services. Unlike US agricultural cooperatives, Korean agricultural cooperatives focus on their member farmers, trying to handle every agricultural product their members produce.

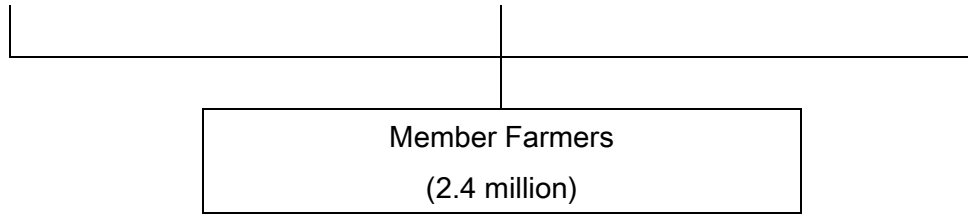
Korean agricultural cooperatives operate 4,600 marketing facilities to market farm products that their member farmers produce. The annual turnover reaches 37 trillion Korean won (about USD 37 billion), and have the largest market share domestically. They also operate more than 5,000 bank branches nationwide and have total assets of 370 trillion won (about USD 370 billion), which makes

Korean agricultural cooperatives the biggest domestic financial institution. They have currently 32 million customers, which means 67% of the total population of Korea are their customers. Everyday 30 million banking transactions are performed at the bank counters of Korean agricultural cooperatives. They also have 21 subsidiaries, such as fertilizer companies, farm product marketing companies, securities companies and asset management companies.

Korean agricultural cooperatives' growth over the last 46 years has been recognized as an object of case study by other foreign cooperatives. The ICA global 300 project selected NACF as the 5<sup>th</sup> largest cooperative of the world.

< Organizational Structure of Nonghyup >





From: Agricultural cooperatives in Korea (2006), written by Jaehak, Choi

## 2. Some characteristics of Korean agricultural cooperatives

### 1) Focusing on their members

As stated above, like in Great Britain, Canada, and Sweden, Korean agricultural cooperatives have multiple objectives, while in the US, the cooperative typically only offers a single primary service.<sup>29</sup> As stated above, Korean agricultural cooperatives conduct a marketing business, a banking business and extension services together. In addition, they try to market every agricultural produce that their members produce regionally because they focus on their membership which is regionally bound, not on one agricultural produce item or one service produce.

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<sup>29</sup> Cooperatives as a community development strategy: Linking theory and practice, the Journal of Regional Analysis & Policy(2005), Kimberley Zeuli and Jamie Radel

For example, Gaya nonghyup, one of Regional agricultural cooperatives in Korea, handles versatile produce such as rice, cabbage, radish, paprika, and so on.<sup>30</sup>

Another example is Jinju Joint Marketing Business Corps. Jinju city branch office of NACF found joint marketing corps with 5 regional agricultural cooperatives to market and sell agricultural produce member farmers produce effectively through scale of produce, quality management, collaboration in marketing and so on.

They handle various vegetables such as peppers, pimentos, green pumpkins, eggplants, cucumbers, strawberries and so on. Through scale of produce, they can have more power in price bargaining and reduce the cost of distribution.

By participating in the joint marketing business of agricultural coop, farmers can get more unit price. For example, through participating in the Joint marketing business, farmers get additional \$1.1 in pepper per 10kg, \$1.3 in pimento per

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<sup>30</sup> [www.gayanonghyup.co.kr](http://www.gayanonghyup.co.kr)

10kg, and \$2.1 in green pumpkin per 8kg. Also, farmers can reduce their labor hour through participating in the Joint marketing business because of collaboration in shipping and sorting. Hence, they can have more time in leisure, education of children and so on. In addition, farmers can concentrate entirely on producing high-quality agricultural produce without concerns on marketing and selling. As a result, the result of business is increased from \$17,000 in 2003 to \$

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million in 2007. Also, the participant farms are increased from 60 farms in 2003 to 240 farms in 2007.

For the success of joint marketing business, staffs of agricultural cooperatives tried to have expert knowledge and tried to have more discussion with member farmers. Also, they played a role of a mediator among members through education of member farmers and activation of communication among participant farmers. They also tried to share the information with members on the produce

quality which satisfies the consumers and the change of consumers likes, hence induced high quality agricultural produce. In addition, they endeavor to equalize the quality of produce, resulting in acquiring more credence from consumers.

Due to their effort, the price which participant member farmers get increased \$524,000 (\$2,180 per farm) in four produce annually. Hence the number of participant member farmers increased every year, from 60 farms in the 2003 to 240 farms in the 2007. Also, the amount of sales is expected to be increased 723.5%, from \$ 1,700,000 in 2003 to \$ 14,000,000 in 2007.

< Comparison of unit selling price between Joint marketing business corps and private farmers >

produce	unit selling price by joint market business corps(A)	unit selling price by private farmer(B)	difference (A-B)	Increased income of participant farmers (\$ 1,000)
Green Pepper	\$ 41.5/10kg	\$ 40.4/10kg	\$ 1.1/10kg	145
Pimento	\$ 27.2/10kg	\$ 25.9/10kg	\$ 1.3/10kg	48
Green Pumpkin	\$ 15.8/8kg	\$ 13.7/8kg	\$ 2.1/8kg	230

From: Advanced Joint marketing business corps: Jinju Joint marketing business corps (2007),  
Jaeyoung, Woo (translated by me)

## 2) Participating in the retail market

### (1). Hanaro Mart

One characteristic of Korean agricultural cooperatives is their participating in the retail market. One example is Hanaro Mart. Hanaro Mart is owned and operated by primary cooperatives such as Regional Livestock Cooperatives, Regional agricultural cooperatives or commodity cooperatives. For the several decades, it



contributed to the price stabilization in the rural area. However, recently, because of its relatively small size and the growth of other large retailers, they are experiencing a crisis.

## (2). Hanaro Club

Korean Agricultural cooperatives are operating a large retail system called Hanaro Club to provide its member farmers with stable and high income, markets for their members' agricultural produce, market information, and hence to compete large private retailers. As of 2003, the number of Hanaro Club is 22 and it shared 7.7% in the retail market of large discount store.

According to an empirical study on the role of Korean agricultural cooperatives in agricultural retail markets<sup>31</sup>, Hanaro Club has played as a role of competition

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<sup>31</sup> An empirical study on the role of agricultural cooperatives in agro-food retail markets in Korea (translated by me) (2005), Kim, Hong Bae

yard stick, even though it has limited market share. Of the 9 commodities, which were considered the same agricultural produce sold by Hanaro Club and large retailers simultaneously, Hanaro club sold them at lower prices (average 38.8 %) than those of large private retailers. In addition, large retailers purchased those commodities at the lower price ranging from 15.5 % to 45.5 % than Hanaro Club. Hence large retailers had higher margin than Hanaro Club. Depending on items, while Hanaro Club's margin rates were from 13.7 % to 28.5 %, large retailers' margin rates were ranged from 97.8 % to 198.3 %.

As seen above, by restricting monopolistic behavior of other dominating large retailers, NACF contributes to social welfare. In other words, by not only promoting consumer surplus but also improving farm income, Hanaro Club has worked for public goods.

That cooperatives' participation in the market contributes to increase of consumer surplus was proved by the research of Wills. Wills<sup>32</sup> insisted that "cooperative brands with similar market shares and advertising tended to obtain lower prices than their proprietary competitors". "Nonetheless, cooperatives may enable farmers to receive higher returns than they could get independently." Hogeland insists that "cooperatives would be a competitive yard stick by not only setting the pace of competition, but also by disciplining their competitors through superior or innovative examples of processing or distribution."<sup>33</sup>

### 3) Managers

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<sup>32</sup> Evaluating price enhancement by processing cooperatives, American journal of agricultural economics (1985), vol.67, pp183-192, Robert L.wills

<sup>33</sup> The economic culture of US agricultural cooperatives, Culture & Agriculture Vol 28, No 2, PP. 67-79, Julie A. Hogeland

While, in most US cooperatives, the board of directors hires a (non-member) manager to oversee business operations,<sup>34</sup> the managers of Korean agricultural cooperatives are elected by their members, by a board of representatives or by mutual vote among the board of directors. In addition, unlike the managers of US agricultural cooperatives, the managers of Korean agricultural cooperatives should be not only farmers but also members of cooperatives because Korean Agricultural Cooperative Law regulates that managers of cooperatives should be a member of a agricultural cooperative and only farmers can be a member of agricultural cooperatives.

#### **4) Participating in the policy making**

In the US, traditionally, the cooperatives have not participated in the public policy making. By influencing public policy, agricultural cooperatives could play a

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<sup>34</sup> Cooperatives as a community development strategy: Linking theory and practice, the Journal of Regional Analysis & Policy(2005), Kimberley Zeuli and Jamie Radel

strong role in influencing agricultural, environmental, and energy policy. “

Agricultural cooperatives have traditionally taken more of a neutral policy role in determination of agricultural policy.”<sup>35</sup>

The Korean agricultural cooperatives have tried to influence government policies by lobbying on behalf of members. The NACF prepares policy recommendations to address pending agricultural issues and submits recommendations both to the local and central government, local and national assembly for consideration and legislation. The NACF also conducts research to determine the best direction for the various NACF's business and helps formulate alternative policies to improve farm management and the farm economy. Also, the NACF is carrying out policy-related activities to promote the interests and rights of farmers such as urging the government to formulate necessary policies, and asking the government to correct or revise inappropriate policies. The NACF makes recommendations to

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<sup>35</sup> Agricultural cooperatives and Marketing Bioenergy crops: case studies of emerging cooperative development of agriculture and energy(1998), Mark Downing ed

the government and the National Assembly to reflect farmers' desired projects for agricultural and rural development and proposes alternative policies to solve pending issues.

Knutson, et al., has suggested that “realistically, the interests of cooperative members would be most effectively reflected in the policy process if cooperatives, themselves, become more directly involved in farm policy making.”

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## IV. Applying the Korean agricultural model in Lane County

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<sup>36</sup> Cooperative involvement in issues of domestic farm policy(1986), Department of Agricultural Economics Information Report 86-4, Texas A&M University, College station, TX, Ronald Knutson and W.E. Black (Quoted in “Agricultural cooperatives and Marketing Bioenergy crops: case studies of emerging cooperative development of agriculture and energy(1998), Mark Downing ed”)

Historically, Lane County's economy has been based around agriculture.<sup>37</sup>

Agriculture grew because of the fertile soil and moderate climate that exists in the

Lane County, making it one of the most productive farming areas in the nation.

Family farms have flourished in the rich soil and mild climate of the Willamette

Valley. Therefore, an agricultural cooperative can be one of adequate

development models in Lane County.

Most of Oregon farmers are family farms. Family farms are important because

they not only serve as responsible stewards of the land but also guarantee the

preservation of green space within the community. Also, family farms play a vital

role in rural economies because family farms provide jobs to local people, and

help support small businesses by purchasing goods and services within their

communities. Family farmers also benefit society by helping to preserve an

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<sup>37</sup> <http://www.sos.state.or.us/archives/county/cplanehome.html>

essential connection between consumers, their food, and the land upon which this food is produced.<sup>38</sup>

According to Steele <sup>39</sup> , family farms can contribute the preservation of environment. He insists that “the large number of small farms suggest that they will continue to preserve natural resources and environment by rebuffing or slowing residential and commercial development. He points out that “owners of small farms are faced with the problem of protecting the ecosystems on which their farms depend while preserving the quality of community and life.”

Cooperatives can “help the family farm stay in business and thus keep control of production.” <sup>40</sup> Knutson insists that “family farmers can survive only if

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<sup>38</sup> <http://www.sustainabletable.org/issues/familyfarms/>

<sup>39</sup> Why U.S. Agriculture and rural areas have a stake in small farms, Rural development perspectives, vol. 12, no. 2, Cheryl J. Steele

<sup>40</sup> Cooperatives benefits and Limitations, Farmer cooperatives in the United States, Cooperatives information report 1 section 3 (1980), USDA



cooperatives survive. ... If cooperatives fail to relate, accept, and perform to meet the challenge, the family farm system of agriculture is finished.”<sup>41</sup>

Valentinov also sees agricultural cooperatives as useful tools for family farms.<sup>42</sup>

Agriculture depends highly on nature, meaning that farmers have low control over the processes and result of production hence result in complicating planning, monitoring, and supervision over the process and result of production. The problem of supervision becomes particularly severe when farmers use laborers (who are not family members) because those workers cannot be gathered together in a single location and therefore cannot be monitored effectively. If farmers can reduce the monitoring cost, they will get more gains, and when the workers exhibit significant loyalty to the employer (farmers), the farmers can reduce the monitoring cost. Hence if the workers are their family, farmers can significantly reduce the monitoring cost.

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<sup>41</sup> Ronald D. Knutson’s lecture to young farmer couples (Quoted in “Cooperatives benefits and Limitations, Farmer cooperatives in the United States, Cooperatives information report 1 section 3 (1980), USDA”)

<sup>42</sup> Why are cooperatives important in agriculture? An organizational Economics perspective, Journal of institutional Economics(2007) ”, Vlaidslav Valentinov

According to Pollak, “the family farm can be regarded as an organizational solution to the difficulty of monitoring and supervising workers.”<sup>43</sup> However, the efficient size of family farms has some disadvantages (e.g., inability to realize the external economies of scale and weak ability in bargaining with their trading partners) and these disadvantages are the major incentives for the creation of agricultural cooperatives. In other words, while family farms are viable primarily due to “their ability to integrate agricultural production with pre-existing, ongoing, and significant personal relationship”, agricultural cooperatives are viable for their instrumental role in securing the advantages of large size for family farms.

International processors and distributors have no interest in small family farms.

Hence farmers have to big if they want to meet the processors and distributors.

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<sup>43</sup> A transaction cost approach to families and households(1985), Journal of Economic Literature, 23: 581-608, Robert A. Pollack

In addition, even big farmers are controlled by processors and distributors. They tell farmers what to grow and the price going to be.

To compete with gigantic processors and distributors, farmers in the Lane County can create an agricultural cooperative. And then, the agricultural cooperative can perform the role of processors and distributors of local produce which is produced and consumed locally. That agricultural cooperative can provide environmental, economic, and health benefits to consumers, producers, and the County as a whole.

For consumers, it contributes to increased access to fresher, healthier food.

Locally grown food requires much less handling and treatment in order to stay fresh. In addition, the more direct path from field to market that the local economy

creates allows consumers to be better informed and more connected to the sources of their food.

For producers, having strong local demand and well-supported local markets in which to sell their produce means the farmer does not have to spend as much on transportation and processing as for other, distant markets. In addition, the farmer is more closely connected to the local market and is able to gauge and adjust to changing demands.

For the County, locally produced and sold food has less environmental impact because it requires less transportation, processing, and packaging, all of which use natural resources and can produce pollution. A strong local food economy can be a key component to a County's economy as a whole, as it can provide jobs and generates income for residents.

While almost all agricultural coops in US focus on one crop, Korean agricultural coops try to handle every crop which their members produce regionally because they focus on their membership and ,in the case of Regional Agricultural cooperatives and Regional Livestock cooperatives in Korea, the membership is regionally bound. Hence, Korean agricultural cooperatives can be a helpful model in the Lane County.

For the success of the Korean agricultural cooperative model in the Lane County, governmental support is important. According to Togerson<sup>44</sup>, agricultural cooperatives meet the need of not only agricultural producers but also community residents. The success of these agricultural cooperatives contributes to build needed infrastructure that increases community vitality and ultimately benefits all members in the community. The net earnings of agricultural

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<sup>44</sup> The impact of new generation cooperatives on their communities.(2001), Randall E. Togerson.

cooperatives are returned to the members. Also, agricultural cooperatives may lead to the development of other businesses. In addition, they play a role as business center, providing services to not only members but also other residents. Hence, the Government should support agricultural cooperatives aggressively.

The role of Manager is also important for the success of Agricultural cooperatives. Like Thomas said,<sup>45</sup> managers of cooperatives have contributed to the development of rural communities because they “have become active in their communities and have contributed to development efforts.” Leaders in the cooperatives should deal with a variety of organizational responsibilities effectively.

These leaders have played the roles of “conflict resolution, resource allocation, information spokesperson, and leadership.”<sup>46</sup> The manager’s role in conflict

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<sup>45</sup> Agricultural cooperatives and rural development, American cooperation (1990): 81-88, Stafford Thomas H.

<sup>46</sup> The role of management behavior in agricultural cooperatives (1994), Michael L. Cook

settlement is crucial. Togerson<sup>47</sup> insists that “managing conflicts is an important challenge.” Like Togerson insists, externally, conflicts with non members are almost inevitable, because cooperatives exist to serve their members. Also their adeptness at making good economic decisions for members is important.<sup>48</sup> In addition, internally, “maximizing net income, and maximization of price received by members of cooperative are in conflict with each other. These and other goals and objectives must be coordinated to achieve success and to maximize multiple and mutual benefits of agricultural cooperatives.”<sup>49</sup> Therefore, the managers should do their best to coordinate those goals smoothly.

Another important thing is food quality. Recently, consumers’ interest in food quality has been increasing. Hence, for the success of agricultural cooperatives, food quality is vitally important. Members should do their best to produce safe

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<sup>47</sup> The impact of new generation cooperatives on their communities.(2001), Randall E. Togerson.

<sup>48</sup> Cooperatives Ideal vehicle to promote development in rural revitalization, Farmers Ccooperatives 56 (March 1990):14-18, Duffey, Patrick.

<sup>49</sup> Agricultural cooperatives and Marketing Bioenergy crops: case studies of emerging cooperative development of agriculture and energy(1998), Mark Downing ed

and high-quality food. “Cooperatives must identify with food safety issues and take proactive steps in staying ahead of the curve concerning public reaction to them.”<sup>50</sup>

Federico insists that “the success of production and marketing co-ops seems more likely for products directly aimed at the consumer who wants reliable quality.”<sup>51</sup> . Danbom also stress that the importance of quality of produce, saying that “the farmers who benefited most from cooperative were those who produced items that sold on a notional rather than a world market and whose quality could be guaranteed.”<sup>52</sup>

## V. Conclusion

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<sup>50</sup> Cooperative communicators need to have knowledge of public policy issues(1989), Randall E. Togerson.

<sup>51</sup> Feeding the world(2005), Giovanni Federico

<sup>52</sup> Born in the country(2006), David B. Danbom



A healthy agricultural industry contributes to a healthy rural America.<sup>53</sup>

In the situation that the interests in the local food system are increasing, the success of agricultural cooperatives can help build a needed infrastructure that increases community vitality and ultimately benefits all members in the community.<sup>54</sup> As user-owned organizations, cooperatives can contribute to individual self-help and empowerment that strengthens bonds which lead to greater community awareness and involvement. "Cooperatives often have broad social, demographic, and environmental impacts on the communities in which they are located."<sup>55</sup>

Based on the agriculture-based economy, Lane County case shows how agricultural cooperatives can be a good strategy for its economic development.

Especially, Korean agricultural cooperatives can be good models for Lane

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<sup>53</sup> Agricultural cooperatives have important stake in development of rural America, Farmer cooperatives 56 (October 1989):24-25, Allen, William R.

<sup>54</sup> The impact of new generation cooperatives on their communities.(2001), Randall E. Togerson.

<sup>55</sup> *ibid.*

County because Korean agricultural cooperatives have focused on their membership (not on one specific produce item or service) and, in the case of Regional Agricultural cooperatives and Regional Livestock cooperatives, their membership is regionally bound. Because of this, they try to handle all agricultural produce that their members produce regionally. In addition, if farmers in the Lane County are experiencing a lack of processors and distributors, it is worthwhile to take a hint from Korean agricultural cooperatives because they have played some roles of processors and distributors by participating in the retail market.

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